NCAP 1 Recognition of Assets

OVERVIEW

This Non-Current Asset Policy (NCAP) discusses the principles underlying the recognition of property, plant and equipment and intangible assets.

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1.1 DEFINITION OF AN ASSET

The Framework for the Preparation and Presentation of Financial Statements (the Framework) defines an asset as “a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity”.

The key features are that:
- the agency must control the asset;
- there was a past transaction or event which gave rise to the control; and
- there must be future economic benefits expected to flow to the agency.

Each of these features is discussed below. A flowchart depicting the decision table is included in Appendix 1.4.

Control

An agency controls an asset if it has the power to obtain the future economic benefits flowing from the resource and to restrict the access of others to those benefits. In determining the existence of an asset, the right of ownership is not essential. An agency must simply have the ability to control the benefits which are expected to flow from the asset.

All agencies control assets that they use in meeting their objectives.

Control is demonstrated, on balance, by the ability of the agency to:
- use the asset to achieve its objectives;
- obtain a benefit from the sale of the asset;
- charge for the use of the asset; and
- deny use of the asset to others.

Other factors that must be considered in determining whether control exists are:
- access to the asset may be more relevant than mere possession or ownership; and
- ownership of an asset may not be necessary to control access to the benefits derived from the asset e.g. assets that are the subject of a finance lease.

There may be situations that arise where there could be doubt as to which agency of a group of agencies controls a particular asset or whether an agency controls an asset or only administers that asset on behalf of the Government as a whole.

In rare instances, no one agency may have exclusive control of an asset(s) i.e. ‘shared control’ exists. Shared control exists when decisions about the asset require unanimous consent of the agencies sharing control (e.g.
decisions about how to use the asset, when to dispose/replace the asset, etc.) and all future economic benefits associated with the asset (e.g. fulfilment of business objectives, proceeds from sale, etc.) are shared between these agencies. Such shared control may be contractual or implied. In this case, both agencies must recognise their ‘share’ of the future economic benefits of the asset on a proportional basis, subject to satisfaction of the recognition criteria contained in the Framework.

It is possible that an agency may cede control of an asset to another entity. In these instances, the agency ceding control must not recognise the asset, but provide an explanation in the notes to its financial statements if the asset and/or overall transaction are material to the agency.

**Past Transaction or Event**

The assets of an agency must result from past transactions or other past events. The past transaction will generally be the purchase of the asset; however other transactions or events may generate assets, such as the transfer of assets from other agencies or donations.

Transactions or events expected to occur in the future do not give rise to assets. For example, the intention to purchase an asset does not meet the definition of an asset.

**Future Economic Benefits**

Future economic benefits embodied in an asset have the potential to contribute, directly or indirectly, to the flow of cash or cash equivalents to the agency. Future economic benefits are synonymous with the notion of service potential and need not necessarily be in the form of cash but can include revenue from a future sale, cost savings or other benefits resulting from the use of the asset by the agency.

In the case of not-for-profit agencies, the future economic benefits may be in the form of providing goods and services in accordance with the agencies’ objectives. The fact that not-for-profit agencies do not charge, or do not fully charge, their customers for the goods and services they provide does not deprive those outputs of utility or value. For example, assets such as monuments, museums, and historical treasures enrich the community. These assets benefit the agencies by enabling them to meet their objectives of providing needed services to the community.

An asset is not recognised on the Statement of Financial Position when expenditure has been incurred for which it is considered improbable that economic benefits will flow to the agency beyond the current accounting period e.g. expenditure on feasibility studies for the construction of infrastructure.
Instead, such a transaction results in the recognition of an expense in the Statement of Comprehensive Income. This treatment does not imply either that the intention of management in incurring expenditure was other than to generate future economic benefits for the agency or that management was misguided. The only implication is that the degree of certainty that economic benefits will flow to the agency beyond the current accounting period is insufficient to warrant the recognition of an asset.

1.2 ASSET RECOGNITION PRINCIPLES

Property, plant and equipment is defined in AASB 116 Property, Plant and Equipment (AASB 116) as “tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period.”

In terms of the Framework and AASB 116, assets are only to be recognised by an agency when:

- it is probable that future economic benefits will eventuate; and
- the asset possesses a cost or other value that can be measured reliably.

Probability that Future Economic Benefits will Eventuate

In determining whether to recognise an asset, an agency must consider the degree of uncertainty that attaches to the flow of future economic benefits from that particular asset. If it considers that it is more rather than less likely that future economic benefits will eventuate, then this arm of the recognition test will be satisfied.

Reliable Measurement

The value of assets can usually be measured reliably using a number of methods. These include:

- For purchased assets this would be the price charged by the supplier.
- For manufactured assets, the value can be derived using information from labour and other costing systems.
- The agency obtaining expert advice or a value from the market place.
- In certain circumstances the agency may need to make an estimation of a cost or value (the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability).

In the rare circumstance that the value cannot be measured reliably but it is probable that future economic benefits will flow to the agency, an asset is not to be recognised. In this situation, the agency must disclose in the notes to its financial statements the reason for why a reliable measure of value could not be determined.

For those assets acquired at no cost or for nominal consideration refer below.
1.3 INITIAL RECOGNITION OF ASSET

Circumstances resulting in the initial recognition of assets include:

- acquisition involving consideration;
- assets acquired at no cost or for nominal consideration, including those acquired as a result of machinery-of-Government changes; and
- assets not previously recognised.

A flowchart relating to Initial Asset Valuation is contained in Appendix 1.5.

Acquisition Involving Consideration

Property, plant and equipment acquired for consideration are accounted for in accordance with AASB 116. This Standard requires that an item of property, plant and equipment that qualifies for recognition as an asset shall initially be measured at its cost.

Cost is defined as "the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Australian Accounting Standards."

This includes the initial purchase costs discussed in NCAP 1.4.

Fair value is defined in AASB 13 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

If the acquired asset is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

The value of an item of property, plant and equipment held by a lessee under a finance lease is determined in accordance with AASB 117 Leases.

Initial Acquisition of Assets at No Cost or for Nominal Consideration

Assets acquired at no cost or for a nominal consideration, other than those acquired through machinery-of-Government changes, must be recognised initially at fair value as at the date of acquisition (refer to NCAP 3 Valuation of Assets). In such cases, the initial recognition is as “assets received below fair value” (a revenue item classified under ‘Grants and Other Contributions’), not as a credit to an asset revaluation surplus.
Further guidance regarding assets acquired at no cost or for nominal consideration is provided in paragraphs Aus15.1 to Aus15.3 of AASB 116.

In the case of any intangible assets acquired at no cost or for a nominal consideration, fair value must only be recognised where there is an active market for the asset(s) concerned. Agencies should also refer to guidance in NCAP 1.7 Guidance on Particular Asset Types and NCAP 3.10 Specific Valuation Issues in regard to intangible assets.

For heritage and cultural assets, agencies should refer to the guidance about heritage, artworks and cultural assets in NCAP 3.7.

For assets acquired through machinery-of-Government changes, refer to FRR 4F Equity, Contributions by Owners and Distributions to Owners and FRR 2F Machinery-of-Government Changes for treatment and disclosure of these assets (refer also NCAP 3).

Subsequent measurement requirements are explained in NCAP 3.

One or more items of property, plant and equipment may be acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment must be measured at fair value unless:
(a) the exchange transaction lacks commercial substance; or
(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

**Assets Provided Under Government Grants**

In situations when an asset is acquired free of charge, or for nominal consideration, by way of a government grant, for-profit agencies are to recognise both the asset and the grant at fair value, in accordance with AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*. Although permitted under AASB 120, Queensland Treasury policy is that agencies must **not** recognise such assets at their nominal values.

It is Queensland Treasury policy that Government grants are **not** to be deducted from the carrying amount of the related asset. Government grants related to assets (including non-monetary grants at fair value) are to be presented in the Statement of Financial Position as deferred income, recognised as income on a systematic and rational basis over the useful life of the asset.
Assets Not Previously Recognised

Changes in Accounting Estimates

Assets not recognised in previous periods that subsequently meet the recognition criteria (not as a result of an error) shall be recognised from the date that the criteria are met.

**Example**

An amount may have been initially expensed because it was assessed as not probable that future economic benefits would result, based on the information available at that time e.g. costs of $50,000 relating to the development of a software product were expensed as there was no viable asset at that time.

If new information comes to light to change that assessment, for example, there is now demand for the software product (i.e. probable future economic benefits will flow); an asset should be recognised in relation to any subsequent expenditure that exceeds the asset recognition threshold. If we now spend $150,000 on further developing the item, the $150,000 will be capitalised but not the previous $50,000.

Expenditure that was expensed in prior periods must not be reversed and capitalised as part of the cost of the asset, as this is not a correction of an error, rather it is similar to a revision of an accounting estimate. In line with Appendix 1.1, as there is no active market for this software, the asset is not revalued (i.e. it is recorded at cost).

Revisions may be made to estimates if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

**Example**

An entity purchased a painting for $2,000. This amount was expensed at the time as the asset recognition threshold was $5,000. Three years later, demand for the works of this particular artist increased, such that the painting is now valued at $50,000.

This is considered a change in an accounting estimate, as new information has become available since the previous estimate was made. The entity cannot reverse the $2,000 previously expensed, but should recognise the asset at its current fair value of $50,000. The increase in value is treated as a revaluation of an asset recognised at zero value.

<table>
<thead>
<tr>
<th>Asset Revaluation Surplus</th>
<th>Dr</th>
<th>50,000</th>
</tr>
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<tbody>
<tr>
<td>Asset</td>
<td>Cr</td>
<td>50,000</td>
</tr>
</tbody>
</table>
Errors

Where assets are identified that have not been previously recognised due to error e.g. during asset verification, this is treated as the correction of an error under AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors. Refer also to FRR 2C Changes in Accounting Policies and Estimates. Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretation of facts, and fraud.

Material errors made and discovered in the same reporting period are generally corrected before the financial report is authorised for issue. However, where material errors are not discovered until a subsequent period, these prior period errors must be corrected in the comparative information presented in the financial report for that subsequent period. If the error occurred before the earliest period presented, the opening balances of assets, liabilities and equity shall be restated for the earliest prior period presented.

Example

In June 20X8, Agency A identified an error in the valuation of a building transferred to the agency as part of a Machinery-of-Government change on 1 July 20X6 from Agency B. Agency B revalued the building at 30 June 20X6 (prior to the transfer) at which time the correct fair value was $900,000 (comprising gross replacement cost of $1,000,000 and accumulated depreciation of $100,000).

However, due to a data processing error, the gross replacement cost was erroneously recorded in the asset register and general ledger of Agency B as $2,000,000 resulting in a fair value of $1,900,000. This incorrect value formed the basis of the value agreed between Agency A and Agency B for the MOG transfer.

The building has a useful life of 50 years, and as at 30 June 20X6, a remaining useful life of 45 years. It is depreciated on a straight-line basis and the annual depreciation expense is $20,000 based on the correct valuation of $900,000.

As the transferor agency has not been abolished, both agencies have agreed to make the retrospective adjustment in their respective financial statements by correcting the comparatives reported for 20X7. For the purposes of this example, it is assumed no change in valuation occurs for the building post transfer.

Adjustments by Agency A (the Recipient)

Restatement of Comparatives for 20X7

<table>
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<th>Date</th>
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</tr>
<tr>
<td></td>
<td>Buildings</td>
<td></td>
<td>1,000,000</td>
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</table>

(To record the building at its correct transfer value against contributed equity resulting from the MOG change)
1.4 CAPITALISATION VS EXPENSING OF COSTS INCURRED

On initial recognition of an asset, or where subsequent costs are incurred, a decision must be made as to whether those costs are capitalised into the value of the asset or expensed through the Statement of Comprehensive Income.

On initial recognition, all costs incurred in purchasing or constructing the asset and getting it ready for use (including work in progress) are capitalised to the value of the asset. Examples of these costs are provided below. Costs incurred initially to purchase or construct an asset must be distinguished from costs incurred subsequently to add to, or replace part of, a completed asset, or to purchase or construct a separately identifiable asset.

In relation to costs incurred subsequent to the initial purchase, expenditure on assets must be capitalised (i.e. added to the carrying amount of the asset) when it improves the condition of the asset beyond its originally assessed standard of performance or capacity.
This can occur through:

- an increase in the annual service potential provided by the asset; or
- increasing the useful life of the asset.

**Initial Purchases – Costs capitalised**

The following costs are included in the cost of an item of property, plant and equipment upon initial purchase or construction and are capitalised:

- the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. Examples of directly attributable costs include:
  - costs of employee expenses arising directly from the construction or acquisition of the item of property, plant and equipment;
  - costs of site preparation;
  - initial delivery and handling costs;
  - installation and assembly costs;
  - costs of testing whether the asset is functioning properly (after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition, such as samples produced when testing equipment); and
  - professional fees.

- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, where that obligation is recognised and measured in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

In the case of work in progress, agencies must ensure they assess the suitability of costs for capitalisation at the time they are incurred, to reduce the need for a subsequent impairment write-down.

Once the item of property, plant and equipment is in the location and condition necessary for it to be capable of being operated in the manner intended, the capitalising of costs must cease.

**Example**

An agency operates a power station and associated coal mine where its licensing agreement requires it to remove the power station at the end of production and restore the construction site and mine site. It is estimated that 90 per cent of the eventual restoration costs relate to the removal of the power station and restoration of damage caused by building it, and 10 per cent arise from restoring the mine site after the
extraction of coal. At the reporting date, the power station has been constructed but no coal has been extracted.

The construction of the power station creates a legal obligation under the terms of the licence to remove the power station and restore the site on which it is constructed. This is termed an obligating event. At the reporting date, however, there is no obligation to rectify the damage that will be caused by extraction of the coal.

A provision is recognised for the best estimate of 90 per cent of the eventual costs that relate to the removal of the power station and restoration of damage caused by building it. These costs are included as part of the cost of the power station. The 10 per cent of costs that arise through the extraction of coal are recognised as a provision when the coal is extracted, as this becomes the obligating event that is necessary before a provision can be recognised.

Refer Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities for guidance on the accounting treatment for changes in the measurement of decommissioning, restoration and similar liabilities that are recognised as part of the cost of an item of property, plant and equipment.

**Initial Purchases – Costs expensed**

General administration and other indirect/overhead costs and training costs are not to be capitalised. Because training costs rarely are of a type to qualify for capitalisation, Queensland Treasury policy requires all training costs to be expensed.

**Incidental Operations**

Incidental operations may occur before or during construction or development activities. For example, income may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the income and related expenses of incidental operations are recognised in the Statement of Comprehensive Income and included in their respective classifications of income and expense in the relevant reporting period.

**Third-Party Costs**

In the course of constructing assets, particularly infrastructure assets, it may be necessary for an agency to relocate or replace assets belonging to another entity, e.g. removing and replacing pipes, relocating trees, relocating power lines, etc.
Such costs may actually relate to assets which are controlled by another reporting entity (i.e. a third party). Third party costs that are directly attributable to, not just associated with, bringing the constructing agency’s asset to the location and condition necessary for its intended operation, may be capitalised by the constructing agency, as per AASB 116 paragraph 16(b). To capitalise third party costs there must be a discernible nexus to evidence that such a cost is necessary in bringing the asset into the location and condition for its intended use.

Directly attributable costs need to be distinguished from costs incurred in connection with the acquisition of an asset but which are not necessary to bring the asset to the location and condition necessary for it to operate as intended. Examples of costs that are not considered to be directly attributable costs include:

- Ex gratia or special payments such as compensation for relocation costs paid to land occupants who are not legal owners of the land.
- Payments of a compensatory nature made to individuals, community groups or other organisations to ensure they are not disadvantaged by the construction work.
- Compensation paid to local businesses for loss of trade as a result of changes to the roads resulting in traffic being diverted around the location of their business are not be considered directly attributable costs and, therefore, should be expensed when incurred.

If an agency determines the third-party costs would not be incurred again when the asset is replaced, it is Queensland Treasury policy that one of the following options be taken in relation to third party costs:

1. Include initially in work in progress, and subsequently expense as capital grant
   This option would generally apply when the other entity will become responsible for the ongoing operation and/or maintenance of the item (particularly where the item resulting from these costs is situated on land controlled by that other entity).

2. Expense, classified according to nature of costs
   This is the most conservative approach. This reduces the likelihood and/or extent of subsequent revaluation decrements and impairments.

**Example**

As part of a road construction activity, an agency must remove sewerage pipes belonging to the local council. As part of the construction process, the sewerage pipes are replaced under the road base. The agency incurs the cost to replace the sewerage pipes.

The agency determines that if the road was to be completely replaced on the same site, the cost to remove and replace the sewerage pipes would need to be incurred again. That is, the removal and replacement costs would need to be replicated in determining the revalued carrying amount of the road asset.

On this basis, the costs are capitalised to the asset as part of the initial costs of construction and no impairment for third party costs is warranted.
**Example**

An agency is constructing a new dam and has agreed to relocate power lines and roads which would be flooded as part of the project. The power lines belong to Energex and the roads belong to the local council. The agency incurs the cost to relocate and replace the power lines and roads.

The agency determines that should the dam be replaced (even if replaced on the same site) the costs of relocating the power lines and the roads will not need to be incurred again.

On this basis, the agency initially includes the third party costs (costs incurred in relocating the power lines and the roads) in the work in progress for the costs of construction. After construction is completed, before transferring work in progress costs to the completed asset record, those costs incurred in relocating the power lines and roads are separately identified and expensed as a capital grant.

**Demolition/Restoration Costs**

Where an asset is to be demolished and a new asset constructed in its place, the carrying amount of the old asset must be written off in accordance with the provisions of AASB 116 and is **not** to be capitalised into the cost of the new asset under any circumstances.

In the rare cases where a Provision for Restoration is justified (due to there being a legal or constructive obligation to restore the site), the estimated costs of dismantling and removing the asset are included in the initial provision and are charged against the provision when they are incurred, with any costs over and above the amount of the provision expensed. Amounts credited to the provision (to establish or increase it) are debited to the original asset and are therefore not capitalised as site preparation costs of the new asset. (Legal and constructive obligations are each defined in paragraph 10 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. Reference should also be made to AASB 116 paragraphs 16 and 18 regarding capitalisation of such costs to an asset.)

In all other cases, demolition and/or restoration costs should be recognised as an expense.

The *Financial and Performance Management Standard 2009* requires agencies to develop asset management systems for efficiently, effectively and economically managing assets of each agency (including disposal of assets). Agencies are to develop linkages between the asset management systems and financial reporting processes to ensure assets that are appropriately valued, managed and recorded in agency financial statements.
Example

ABC department has received written funding approval from the Cabinet Budget Review Committee and has an asset disposal plan approved by the Director-General to demolish Building A and replace it with Building B. The department has not created a provision for restoration costs during the life of Building A. The current value of Building A is $100,000 with $95,000 accumulated depreciation. It will cost the department $1 million to demolish the old asset and prepare the site for the construction of Building B. The following transactions would need to be processed:

<table>
<thead>
<tr>
<th>Transaction</th>
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<tr>
<td>Asset Write-off Expense</td>
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<tr>
<td>Accumulated Depreciation - Building A</td>
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<td>100,000</td>
</tr>
<tr>
<td>Building A</td>
<td></td>
<td>100,000</td>
</tr>
<tr>
<td>(to write off building A)</td>
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<td></td>
</tr>
<tr>
<td>Demolition Costs Expense</td>
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<tr>
<td>Cash/Payables</td>
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<tr>
<td>(to record the demolition costs as an expense)</td>
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Refer also to NCAP 3.10 Specific Valuation Issues.

Parts

Parts are generally classified as inventory and are recognised in the Statement of Comprehensive Income when consumed. However, major parts may be capitalised into the cost of the item of property, plant and equipment if the recognition principles as outlined in NCAP 1.4 are satisfied and either:

- the agency expects to use the major parts or stand-by equipment during more than one period; or
- spare parts are purchased specifically for a particular asset or class of assets and would become redundant if that asset or class were discontinued.

If parts are capitalised, the remaining carrying amount of the replaced parts must be derecognised.

Expenditure subsequent to Initial Purchase

Repairs and Maintenance

Outlays that do not meet the criteria for recognition as an asset must be expensed as repairs and maintenance as incurred. For example, expenditure that merely restores an asset to its original functionality, or repairs damage or wear and tear that would have prevented the asset reaching its original estimated useful life, must be expensed as repairs and maintenance.
Replacement of Components

For some complex assets, significant components with different estimated useful lives are separately identified for accounting purposes. Deciding whether expenditure on asset components should be capitalised follows the same process outlined for assets above, i.e. does the expenditure increase the annual service potential or useful life of the component beyond the originally assessed standard. (Refer also to NCAP 2 Complex Assets)

Day-to-Day Servicing

General day-to-day servicing of an item of property, plant and equipment is not to be capitalised into the cost of an asset. Generally, these costs will primarily be the costs of labour and consumables and may include the cost of immaterial parts. They are generally described as ‘repairs and maintenance’ and are recognised in the Statement of Comprehensive Income as incurred.

Overhauls/Refurbishments

Some items of property, plant and equipment may have parts which require replacement at regular intervals. For example, a furnace may need to be relined after a certain number of hours of use or aircraft interiors such as seats may require replacement several times during the life of the airframe of the aircraft.

In other instances, items of property, plant and equipment may be renewed on an unplanned or ad hoc basis, such as replacing the interior walls of a building. In these instances, an agency recognises the cost of replacing part of such an item in the carrying amount of the item of property, plant and equipment when that cost is incurred only if the asset recognition criteria are met. The carrying amount of those parts that are replaced must be derecognised (refer to AASB 116 paragraphs 13 and 14).

Regular Major Inspections

As a condition of continuing to operate an item of plant and equipment, some agencies will be required to undertake regular major inspections for faults, regardless of whether faults are indicated or parts of the item are replaced. For example, some aircraft must have a major inspection every 5,000 flying hours (this may equate to approximately every five years).

When each major inspection is performed, its cost is recognised as a replacement in the carrying amount of the item of property, plant and equipment if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection must be derecognised.

Costs of performing every-day inspections are not to be capitalised.
No Provisions for Future Maintenance

The creation of a provision for future maintenance of non-current assets is not permitted as such action would be inconsistent with the principles for the recognition of provisions as detailed in AASB 137 Provisions, Contingent Liabilities and Contingent Assets. A provision is a liability and for a liability to be recognised, a past event must have occurred.

Special Purpose Vehicles

There are occasions when agencies need to establish special purpose vehicles (SPVs) (e.g. a proprietary company established under the Corporations Act 2001) for the sole purpose of constructing a significant infrastructure asset.

SPVs preparing general purpose financial statements are required to comply with the Australian accounting standards. On this basis, SPVs cannot assume that all expenditure incurred can be capitalised as part of the cost of constructing an asset.

Therefore, in deciding what costs form part of the cost of construction of the asset and therefore should be capitalised, and what costs should be expensed, SPVs are to refer to the Australian accounting standards. In particular, AASB 116 Property Plant and Equipment, which states that only those costs that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by the SPV management can be capitalised. Any administration and other general overhead costs incurred by the SPV must be expensed.

1.5 MANDATED ASSET CLASSES

Asset Class

A ‘class’ of non-current assets is a grouping of assets of a similar nature and use in an entity’s operations, which, for the purposes of disclosure, is shown as a single item in the financial report without supplementary dissection. That is, a class is the lowest note level disclosure in the financial statements.

Queensland Treasury has mandated all agencies must adopt the asset classes specified for Property, Plant and Equipment and Intangibles in Appendix 1.1. Appendix 1.1 also sets out the measurement method prescribed for each class for all not-for-profit agencies consolidated into the whole-of-Government financial statements.
The asset classes outlined are mandated to achieve consistency in reporting asset information across the Queensland Public Sector to provide more reliable and relevant information to users of financial statements and asset managers. Further guidance is provided in subsequent sections.

The requirement to disclose classes of property, plant, equipment and intangibles is provided for in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets. See Appendices 1.2 and 1.3 for asset class descriptions.

Details of Particular Asset Classes

Infrastructure

For the purposes of this policy, the definition of infrastructure is as follows:

A long-life physical asset that consists of an entire system or network (including components), not otherwise defined, which provides the foundation to support Government services and enhance the capacity of the economy.

An infrastructure asset is primarily stationary in nature, purpose built, with a long useful service life, and associated with a network or system. Although not an exhaustive list, the following are examples of items included in the definition of Infrastructure:

- Water and Waste Systems
- Street Lighting Systems
- Dams
- Bridges
- Electricity Supply Systems
- Gas Supply Systems / Networks
- Pipelines
- Rail Network

- Harbour and Port Facilities
- Wharves
- Bus Stations
- Road Networks
- Hangers
- Runways
- Sewerage Systems

Exclusions from the definition of ‘Infrastructure’ include Buildings (including treatment plants) and Land Improvements which include External Services unless they are an ancillary part of an infrastructure system (such as a sewerage pump station or landscaping around an infrastructure asset etc.).

External services include the services above or below ground but external to buildings and which are within the confines of a parcel of land. These services are more appropriately classified as Land Improvements. Refer to Land Improvements below.

1 All government gazetted roads (e.g. under the Land Act 1994) are considered part of road networks and are infrastructure, while non-gazetted roads are land improvements.
Land Improvements

Land improvements are long-life attachments to parcels of land that increase the land’s usefulness or value, have a limited useful life, and are depreciated. They include External Services (as defined above) and other items that are within the confines of a parcel of land (e.g. external services within school grounds, correctional facilities and ambulance stations etc). The following are examples of items included in Land Improvements:

- Covered Play Areas
- Fountains
- Landscaping and Improvements
- Sheds
- Parking Lots (bitumen car parks)
- Parking Barriers
- Retaining Walls
- Centralised Energy Systems

- Roads¹, Footpaths, Paved Areas
- Outbuildings and Covered Ways
- Stormwater and Sewer Drainage
- Water and Gas Supply
- Fire Protection Systems
- Electric Light and Power
- Communication Systems

The above examples are not an exhaustive list. Agencies can choose to record and depreciate Land Improvements assets as part of the main asset otherwise they are to be recorded and depreciated separately from the main asset.

Land Improvements are to be recognised in the same class as the main asset to which they are attached (e.g. Buildings).

Major Plant and Equipment

This is not a mandatory class. This asset class may be used at management discretion. For instance, an agency may wish to consider using Major Plant and Equipment where some assets within the class have potential for high price volatility and/or valuations (e.g. foreign exchange fluctuations, high incidence of obsolescence, exposure to market forces, etc).

All plant and equipment assets with a value over $5,000 must be capitalised as either Major Plant and Equipment or Plant and Equipment. In most cases, the default classification for new plant and equipment assets will be Plant and Equipment. Examples of Major Plant and Equipment include:

- Aircraft
- Specialised Vehicles
- Shipping Vessels
- Earthmoving Equipment
- Hi-Tech Equipment
The list above is illustrative only. Each agency should consider their assets based on their individual agency circumstances.

First Time Adoption of the Major Plant and Equipment Class

Upon initial adoption, the non-current assets transferred to the new class are required to be transferred from the existing plant and equipment class into the Major Plant and Equipment asset class. On transfer to Major Plant and Equipment, the gross and accumulated depreciation amounts should be retained initially. The assets are to be revalued immediately after transfer to the new class, and any revaluation increments or decrements treated as follows:

- revaluation increments are to be credited directly to an asset revaluation surplus; and
- revaluation decrements are to be recognised in accumulated surplus/deficit.

In subsequent years, revaluations are to be treated the same way as that specified in AASB 116.

Reporting/Disclosure

The agency’s accounting policy notes must disclose:

- the new asset class;
- the criteria used to determine these assets; and
- the types of assets included in this category.

In the period of initial recognition of the Major Plant and Equipment class, and thus the reclassification of items in the financial statements and comparative amounts, the agency is to disclose:

- the nature of the reclassification
- the amount of each item or class of items that is reclassified
- the reason for the reclassification

Intangible Assets

Descriptions of classes of intangible assets are contained in Appendix 1.3.

Software

When determining whether computer software is to be classified as property, plant and equipment or as an intangible, the agency must use judgement to assess whether the tangible or intangible element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer.
When the software is not an integral part of the related hardware, computer software is treated as an intangible asset where it meets the asset recognition threshold, otherwise it is expensed.

The Purchased Software class refers to software that is substantially used in the form it was purchased without material changes programmed by the agency. Purchased software also includes software purchased by another Queensland government agency and subsequently transferred, by way of a machinery-of-Government change or other transfers, to the current holder of the software asset.

Internally Generated Software is composed of the software purchased to generate the asset plus all costs necessary to get the asset ready for use. Internally generated software also includes software internally generated by another Queensland government agency and subsequently transferred, by the mechanism of a machinery-of-Government change or other transfers, to the current holder of the software asset.

### 1.6 ASSET RECOGNITION THRESHOLDS

Agencies usually control a number of low value items that satisfy the asset recognition criteria, but if accounted for individually as assets would result in significant costs for limited benefits. To avoid such a situation and to facilitate a consistent threshold for whole-of-Government consolidation purposes, asset recognition thresholds have been established.

Queensland Treasury has mandated thresholds for the initial recognition of non-current assets for not-for-profit agencies that are consolidated into the whole-of-Government financial statements. Refer to Appendix 1.1 for the thresholds. These thresholds are to be complied with as section 23(3) of the *Financial and Performance Management Standard 2009* (FPMS) requires all accountable officers and statutory bodies to comply with the *Non-Current Asset Policies for the Queensland Public Sector*.

*For-profit* statutory bodies and agencies *not consolidated* into the whole-of-Government financial statements have the discretion to determine alternative asset recognition thresholds in consultation with their internal and/or external auditors. This policy may be early-adopted by eligible agencies where possible (e.g. where an eligible agency has a 31 December financial year end). Any such alternative threshold must facilitate the financial statements providing more relevant and reliable information (as per AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*). A change in recognition threshold should be accounted for as a change in accounting policy in accordance with AASB 108, including the requirement for retrospective application.

A non-current asset with a cost (or where an asset is acquired at no or nominal cost, its fair value) at the time of acquisition which is less than the mandated asset recognition threshold must be expensed in the period of acquisition.
1.7 GUIDANCE ON PARTICULAR ASSET TYPES

Easements

For the purposes of this policy easements are defined as "an ‘interest’ in land or property – a right to use land or property of an external entity for a limited purpose (as right of passage)."

By their nature, easements are intangible and are to be accounted for in accordance with AASB 138 Intangible Assets.

Land under Roads

Land under roads is defined in AASB 1051 Land Under Roads as “Land under roadways, and road reserves, including land under footpaths, nature strips and median strips.”

On adoption of AASB 1051, Queensland agencies were required to make an election in relation to the recognition of all land under roads acquired on or before 1 July 2008. The election was effective from 1 July 2008.

Consequently, all departments and statutory bodies holding land at 30 June 2008, that met the definition of ‘land under roads’, were required to recognise that land at fair value in accordance with AASB 1051 (refer to Appendix 1.1 for further information).

Land under roads acquired on or after 1 July 2008 must be recognised in accordance with AASB 116 Property, Plant and Equipment.

For the purposes of this policy, land under roads only relates to land to which the Land Act 1994 applies. It does not capture land under internal roads such as those on TAFE or hospital sites.

Land under roads is to be recorded in the asset class ‘Land’ and therefore, subject to the asset recognition threshold of $1.

Leased Assets

AASB 117 Leases requires that assets acquired under finance leases be recognised initially at an amount equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, using the interest rate implicit in the original lease contract as the discount factor. A corresponding liability for the lease payments must also be recorded.
Assets acquired under a finance lease are subject to the same revaluation requirements as assets that are owned or otherwise controlled by the agency.

Assets acquired under an operating lease are not controlled by the agency and must not be recognised as assets.

AASB 13 Fair Value Measurement does not apply to leasing transactions within the scope of AASB 117 Leases.

Intangible Assets

Agencies are to refer to, and comply with, AASB 138 Intangible Assets in accounting for intangible assets.

Internally Generated Intangible Assets - Software

The cost of an internally generated intangible asset is determined as the sum of expenditure incurred from the date when the intangible asset first meets the development recognition criteria until the asset is “capable of operating in the manner intended by management”. Therefore, regardless of the type of activity, costs incurred before the development recognition criteria are met need to be directly expensed. It is important to note that AASB 138 prohibits the capitalisation of any amounts that have previously been expensed.

In some cases, technical design costs for the asset may be incurred and expensed in the research phase under AASB 138. Although such costs may ultimately relate to the final software asset constructed, subsequent capitalisation is not permitted. Therefore, it is imperative agencies determine the appropriate accounting treatment including identifying the research and development phases under AASB 138 prior to commencing the software development project.

The following costs should be expensed in the reporting period in which they are incurred:

- all research costs (refer comments below);
- selling, administrative and other general overhead expenditure (unless in rare circumstances certain project administration costs can be clearly demonstrated to be directly attributable in preparing the asset for use);
- any identified cost inefficiencies/overruns and initial operating losses;
- expenditure on training activities;
- data cleansing activities and data conversion/migration preparation;
- minor modifications after system is operational.
Costs incurred in the early planning phase (e.g. feasibility studies, formulating preliminary design requirements, evaluating alternative design specifications) in the lead up to the actual technical design, development and configuration of the new system would be considered research activity.

Similarly, while implementation planning is required to establish the resources, project activities/milestones, roles/responsibilities and governance arrangements for the project, such implementation planning costs are typically not included in the cost of the asset as they do not represent future economic benefits embodied in the software, nor enhance the long-term value of the software asset itself.

Activities that would typically qualify for capitalisation once the development phase of AASB 138 commences include:

- Technical Design (unless incurred and expensed in the research phase)
- System Build
- Testing of new system
- Development of system documentation
- System configuration

No or Nominal Cost

Intangible assets acquired at no cost or for a nominal consideration, other than those acquired through machinery-of-Government changes, must be recognised initially at fair value as at the date of acquisition, provided there is an active market for the asset(s) concerned. If it is not possible to determine a fair value, they are not to be recognised on the Statement of Financial Position but rather disclosed in a note to the financial statements, if such items are material in a qualitative sense.

In situations when an intangible asset is acquired free of charge, or for nominal consideration, by way of a government grant, the agency is to recognise both the asset and the grant at fair value, in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance (for-profit agencies) or AASB 1004 Contributions (not-for-profit agencies). Although permitted under AASB 120, agencies must not recognise such intangible assets at their nominal values.

Measurement after Recognition

Where there is an active market, intangible assets are to be carried at fair value (refer to NCAP 3 Valuation of Assets). If an active market ceases to exist, such intangibles must be held at cost, with the fair value that was last determined by reference to an active market being deemed to be “cost” from that time until such time as an active market exists.

Intangible assets, both at cost and fair value, are subject to amortisation and impairment testing.
The reinstatement and capitalisation of costs previously recognised as an expense is prohibited.

Investment Property

Buildings that are leased principally to other Queensland State Government agencies are not to be classified as investment property either in the agency’s financial statements or in the whole-of-Government consolidated financial statements, unless the asset is surplus to requirements and held specifically to earn income.

Service Concession Arrangement Assets

A physical asset is only recognised when it is certain that a State-owned asset will actually eventuate (when it is certain the agency will control the future economic benefits) from the service concession arrangement e.g. a signed agreement between relevant parties which outlines the structure of the arrangement, and which includes an agreement to the extent of stipulating the eventual/ultimate ownership of the asset by the State.

Due to the form and complexity of individual service concession arrangements, Queensland Treasury’s position is for departments and statutory bodies to continue applying existing applicable accounting standards and interpretations relevant to the individual arrangement concerned until AASB 1059 Service Concession Arrangements: Grantors becomes operative. For further guidance, agencies should refer to FRR 5D Service Concession Arrangements: Grantor.

1.8 GROUPING OF ASSETS

Agencies are not to group similar or like-natured assets, including personal computers, which do not meet the definition of a network. Only assets that form a network or part of a network are to be grouped for capitalisation. For the purposes of this policy, a network is defined as:

A chain of interconnected but dissimilar assets connected for the provision of the one simultaneous service.

Examples of a network of assets include:

- **Computer network** (excluding personal computers): the network includes the network operating system in the client and server machines, the cables connecting them and all supporting hardware in between such as bridges, routers and switches.
- **Leasehold improvements**: leasehold improvements include wall construction, painting, cabling, carpeting, glazing, joinery, built in desks, cabinets and work stations.
- **Land improvements**: including landscaping, sheds, retaining wall, parking lots, covered play areas, etc.
In relation to part replacements of networks, such acquisitions are to be capitalised, when and only when it is probable that future economic benefits in excess of the original standard of performance of the network will flow to the agency in future financial years and the acquisition is material to the class of asset. If part of the network is capitalised, the remaining carrying amount of the replaced part must be derecognised.

### 1.9 PORTABLE AND ATTRACTIVE ITEMS

Certain items that have values below the asset recognition threshold are, by their nature, susceptible to theft or loss. Such items, termed portable and attractive, may include personal computers, programmable calculators, cameras, power tools, ladders and like items.

Regardless of the treatment of these types of assets for financial reporting purposes, such items must be registered for physical control purposes. It may be appropriate to specify a control threshold to exclude very low value items. If a separate Register of Portable and Attractive Items is not maintained such assets may instead be recorded at ‘nil’ value in the Asset Register of the agency. Portable and attractive items are not reported in an agency’s financial statements.

### 1.10 STOCKTAKES

Stocktake of assets (also known as asset verifications) are to be undertaken on a regular basis. That is, the existence of assets (including inventories), are to be verified on a regular basis.

The frequency of the asset verification procedure should be decided after considering the risk profile and materiality of each class of asset. For the purposes of this policy, ‘regular’ means, as a minimum, all assets are physically verified at least once every 3 years, on a rolling basis.

In undertaking the asset verification process, it is expected that the assets are sighted. Assets not located during this process are to be written off in that year, subject to materiality, in accordance with the agency’s accounting policies and procedures, and authorised by an appropriately delegated officer.

Land, building and infrastructure assets are generally verified during condition assessments or revaluations which are undertaken by an independent professional valuer or internal expert.
## APPENDIX 1.1 NON-CURRENT ASSET CLASSES AND THRESHOLDS

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Asset Recognition Threshold *</th>
<th>Measurement Method**</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property, Plant and Equipment</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Land</td>
<td>$1 (all land)</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Buildings</td>
<td>$10,000</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Infrastructure</td>
<td>$10,000</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Major Plant and Equipment (optional class)</td>
<td>≥$5,000 (at discretion of agency management)</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Plant and Equipment</td>
<td>$5,000</td>
<td>Cost***</td>
</tr>
<tr>
<td>• Library Reference Collections</td>
<td>$1,000,000</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Leased Assets (finance lease)</td>
<td>Threshold of class to which asset would belong if not subject to finance lease</td>
<td>Revaluation (per AASB 117)</td>
</tr>
<tr>
<td>• Heritage and Cultural Assets</td>
<td>$5,000</td>
<td>Revaluation</td>
</tr>
<tr>
<td>• Work in Progress</td>
<td>n/a</td>
<td>Cost</td>
</tr>
<tr>
<td><strong>Intangibles</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Software Purchased</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Software Internally Generated</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Intellectual Property</td>
<td>$100,000</td>
<td>No active market – Cost Active market – Revaluation (per AASB 138)</td>
</tr>
<tr>
<td>• Other Intangibles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Digital Library Reference Collections</td>
<td>$1,000,000</td>
<td>No active market – Cost Active market – Revaluation (per AASB 138)</td>
</tr>
<tr>
<td>• Digital Library Heritage Collections</td>
<td>$5,000</td>
<td>No active market – Cost Active market – Revaluation (per AASB 138)</td>
</tr>
<tr>
<td>• Software Work in Progress</td>
<td>n/a</td>
<td>Cost</td>
</tr>
<tr>
<td>• Intellectual Property work in Progress</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
* These recognition thresholds apply only to not-for-profit agencies that are consolidated into the whole-of-Government financial statements, and only upon initial recognition. For-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements have the discretion to determine alternative asset recognition thresholds in consultation with their internal and/or external auditors. This policy may be early-adopted by eligible agencies where possible (e.g. where an eligible agency has a 31 December financial year end).

** For-profit statutory bodies and agencies not consolidated into the whole-of-Government financial statements have the discretion to choose either the cost or revaluation model for property, plant and equipment as per AASB 116. This policy may be early-adopted by eligible agencies where possible (e.g. where an eligible agency has a 31 December financial year end). Where a for-profit statutory body consolidated into the whole-of-Government financial statements chooses the cost model, it is still required to provide fair values to Queensland Treasury for whole-of-Government reporting purposes. Refer to NCAP 3.3 Application of Fair Value Basis for more guidance.

*** As this class is designed to capture items of stable value and/or frequent turnover, carrying amount is considered to approximate fair value.
APPENDIX 1.2  DESCRIPTIONS OF CLASSES OF PROPERTY

PLANT AND EQUIPMENT

<table>
<thead>
<tr>
<th>Asset Classes</th>
<th>Examples of Assets Forming the Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Land and Land under roads (land under roads includes land under roadways, and road reserves, including land under footpaths, nature strips and median strips).</td>
</tr>
<tr>
<td>Buildings*</td>
<td>Buildings, Building Fit outs, Sporting Facilities, Leasehold Improvements to Land, Other structures and Improvements and associated Land Improvements*.</td>
</tr>
<tr>
<td>Infrastructure*</td>
<td>Electricity, Gas, Water, Transport, Environmental, Sewerage, Forestry, Recreation, Amenities and associated Land Improvements*.</td>
</tr>
<tr>
<td>Major Plant and Equipment</td>
<td>Examples of Major Plant and Equipment may include: Aircraft, Specialised Vehicles, Shipping Vessels, Earthmoving Equipment and Hi-Tech Equipment.</td>
</tr>
<tr>
<td>Plant and Equipment</td>
<td>Furniture, Fixtures and Fittings including Leasehold Improvements to Buildings, Computer Equipment, Office Equipment, Common Use/General Purpose Libraries, Motor Vehicles, Agricultural and Farming Equipment, and other items not otherwise included in the asset class, Major Plant and Equipment.</td>
</tr>
<tr>
<td>Library Reference Collections</td>
<td>General and specialised items, usually not able to be borrowed, but available for use, even if archived. Generally, have variable uses (e.g. undergraduate and research purposes), and a longer useful life than common use collections, but not held indefinitely. If possible, would generally be replaced if lost or damaged.</td>
</tr>
<tr>
<td>Heritage and Cultural Assets</td>
<td>Works of Art, Cultural Collections, Heritage Library Collections, National Parks, Heritage Buildings/other items of cultural or historical significance.</td>
</tr>
<tr>
<td>Leased Assets</td>
<td>Any assets acquired under a finance lease arrangement.</td>
</tr>
<tr>
<td>Work in Progress</td>
<td>Property, plant and equipment under construction or in the process of being constructed but yet to meet the recognition criteria of being in the location and condition necessary for it to be capable of operating in the manner intended by management.</td>
</tr>
</tbody>
</table>

* Land improvements are to be included in the class Buildings or Infrastructure based on their proximity to the asset to which they relate. See NCAP 1.5 for details of what is to be included in Land Improvements.
## APPENDIX 1.3 DESCRIPTIONS OF CLASSES OF INTANGIBLE ASSETS

<table>
<thead>
<tr>
<th>Asset Classes</th>
<th>Examples of Assets Forming the Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software Purchased</td>
<td>Software predominantly purchased from external providers; Purchased software transferred from another Queensland government agency</td>
</tr>
<tr>
<td>Software Internally Generated</td>
<td>Software predominantly built within the agency; Internally generated software transferred from another Queensland government agency</td>
</tr>
<tr>
<td>Software Work in Progress</td>
<td>Software being built which is not yet in location and ready for use</td>
</tr>
<tr>
<td>Intellectual Property</td>
<td>Patents, Copyrights</td>
</tr>
<tr>
<td>Intellectual Property Work in</td>
<td>Intellectual property being developed which is not yet patented or copyrighted</td>
</tr>
<tr>
<td>Progress</td>
<td></td>
</tr>
<tr>
<td>Other Intangibles</td>
<td>Licences</td>
</tr>
<tr>
<td>Digital Library Reference Collections</td>
<td>General and specialised library items in digital/electronic format, usually not able to be borrowed, but available for use, even if archived. Generally, have variable uses, but not held indefinitely. If possible, would generally be replaced if lost or damaged.</td>
</tr>
<tr>
<td>Digital Library Heritage Collections</td>
<td>Library items of cultural or heritage significance in digital/electronic format, usually not able to be borrowed, but available for use, even if archived.</td>
</tr>
</tbody>
</table>
APPENDIX 1.4  ASSET RECOGNITION

Will the object or right produce future economic benefits?
  Yes
  No

Does the reporting agency have the capacity to benefit from the object or right in pursuit of the objectives and to deny or regulate the access of others to that benefit?
  Yes
  No

Has the transaction or event giving control occurred?
  Yes
  No

Is it probable that the future economic benefits will eventuate?
  Yes
  No

Is there a cost or value that can be reliably measured?
  Yes
  No

Would information regarding the purchase be useful to users of financial statements?
  Yes
  No

Does the estimated value of the item or group exceed the asset recognition threshold?
  Yes
  No

Recognise an asset in financial statements

Expense and record any portable and attractive items

No disclosure required

Disclose relevant information in note to financial statements
APPENDIX 1.5  VALUATION ON INITIAL RECOGNITION OF ASSET

For Assets coming under agency control within the current reporting period

(As per NCAP 1.1, the right of ownership is not essential in determining control)

Has control been gained by arm’s length purchase?
  Yes
  Cost

Has control been gained by finance leasing?
  No
  Yes
  The lower of: fair value and present value of minimum lease payments
  [AASB117.20]

Has control been gained by transfer as a result of a machinery-of-Government
  No
  Yes
  As valued in the accounts of the transferor, or at fair value
  [FRR 4F]

Has control been gained otherwise, at more or less than fair value?
  Yes
  Fair value
  [AASB116.Aus15.1, NCAP 1.3 and NCAP 3.7]

A material difference between transaction price and initial fair value should be accounted for as contribution revenue or a grant expense, as applicable.)
## APPENDIX 1.6 CAPITALISING VS EXPENSING EXAMPLES (PHYSICAL)

<table>
<thead>
<tr>
<th>Example Costs Incurred</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to purchase an asset (including import duties, non-refundable purchase taxes)</td>
<td>Capitalise – this represents initial cost to acquire the asset</td>
</tr>
<tr>
<td>minus any trade discounts and rebates</td>
<td></td>
</tr>
<tr>
<td>Initial delivery and handling of an asset</td>
<td>Capitalise – these costs are directly attributable in bringing the asset to the location necessary for it to be capable of operating in its intended manner</td>
</tr>
<tr>
<td>Installation and assembly of an asset</td>
<td>Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner</td>
</tr>
<tr>
<td>(Initial) testing of whether the asset is functioning properly</td>
<td>Capitalise – directly attributable in bringing the asset into the condition necessary for it to be capable of operating in its intended manner</td>
</tr>
<tr>
<td>Removing and replacing pipes owned by another entity in the process of constructing a dam</td>
<td>Capitalise – necessarily incurred in completing the project of building the dam (i.e. unavoidable in constructing the dam)</td>
</tr>
<tr>
<td>Major refurbishment of a floor in a building resulting in increased capacity</td>
<td>Capitalise – improves the condition of that floor of the building beyond its originally assessed standard of capacity through increased annual service potential</td>
</tr>
<tr>
<td>(accommodates more staff after refurbishment)</td>
<td></td>
</tr>
<tr>
<td>Costs incurred in training staff</td>
<td>Expense – not directly attributable in preparing the asset for use</td>
</tr>
<tr>
<td>Minor works done to maintain the asset to ensure it continues at the current level of service until the end of its useful life</td>
<td>Expense – does not improve the condition of the asset beyond its originally assessed standard of performance or capacity i.e. it does not increase the annual service potential nor does it increase its useful life</td>
</tr>
<tr>
<td>Property searches in preparation of selling property (currently not yet in “held for sale” class)</td>
<td>Expense – does not improve the condition of the property beyond its originally assessed standard of performance or capacity i.e. it does not increase the annual service potential nor does it increase its useful life</td>
</tr>
<tr>
<td>Repainting walls in a building</td>
<td>Expense – maintaining the condition of the building and does not improve the condition of the building such that it increases its annual service potential or its useful life</td>
</tr>
</tbody>
</table>
### APPENDIX 1.7 CAPITALISING VS EXPENSING EXAMPLES (INTANGIBLE)

<table>
<thead>
<tr>
<th>Example Costs Incurred</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price (including import duties, non-refundable purchase taxes, minus any trade discounts and rebates)</td>
<td>Capitalise – this represents initial cost to acquire the asset</td>
</tr>
<tr>
<td>Material and services in generating the asset</td>
<td>Capitalise – directly attributable in preparing asset for its intended use</td>
</tr>
<tr>
<td>Fees to register a legal right</td>
<td>Capitalise – directly attributable in preparing asset for its intended use</td>
</tr>
<tr>
<td>Costs incurred in testing a system in pre-production</td>
<td>Capitalise – this exercise forms part of the development phase (AASB 138 paragraphs 57 and 59)</td>
</tr>
<tr>
<td>Systems configuration</td>
<td>Capitalise – this is part of building/developing the system and is directly attributable in preparing the system for its intended use</td>
</tr>
<tr>
<td>Costs incurred in examining a viable option for replacing a system</td>
<td>Expense – investigation undertaken and is part of the research phase – unable to demonstrate that an intangible asset exists that will generate probable future economic benefits</td>
</tr>
<tr>
<td>Training</td>
<td>Expense – not directly attributable in preparing the asset for use</td>
</tr>
<tr>
<td>40 (annual) Software user licences costing $2,500 each</td>
<td>Expense – these individual licences do not meet the recognition threshold for intangible asset. They should not be grouped together for capitalisation as they do not satisfy the definition of a network</td>
</tr>
<tr>
<td>Costs incurred in documenting policies and guidelines</td>
<td>Expense – these activities are in connection with the development of an asset but are not necessary in preparing it for use</td>
</tr>
</tbody>
</table>